

FDIC State Profile

Fall 2005

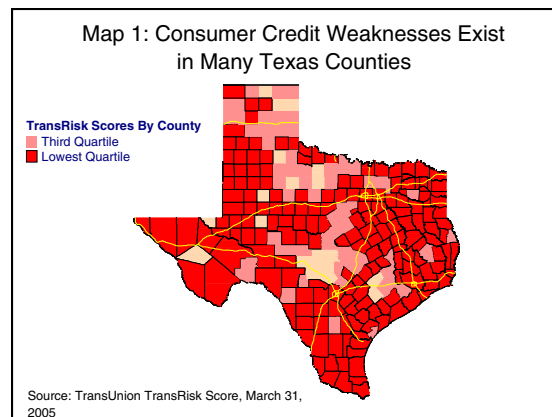
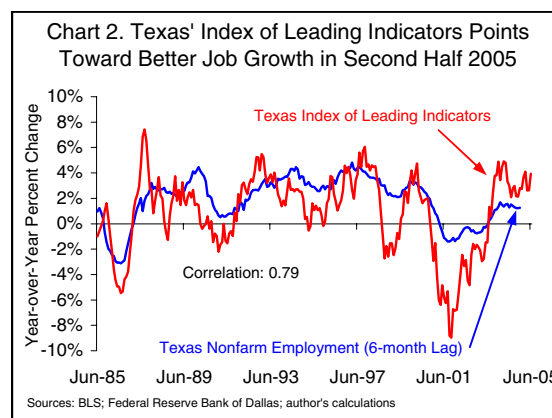
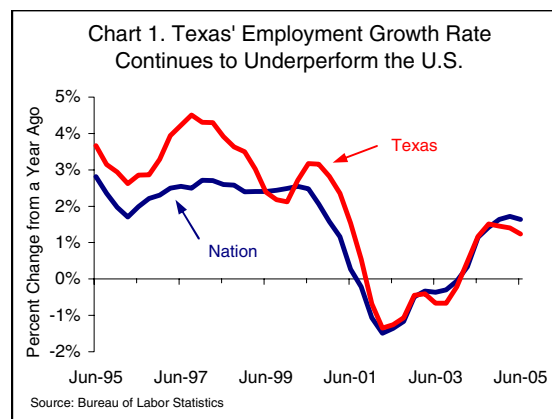
Texas

As expected, Texas employment growth softened in the second quarter...

- Texas nonfarm employment, non-seasonally adjusted, grew 1.2 percent in second quarter 2005 (year-over-year). Employment growth in the state is down slightly from 1.4 percent in the first quarter and continues to trail U.S. employment, which grew at a rate of 1.6 percent (see Chart 1). The leveling off in state employment growth mirrored that of the nation.
- Early predicted damage estimates of Hurricane Rita by the Texas Division of Emergency Management totaled \$8.25 billion. The affected areas encompassed 19 counties, 5.2 million people, and 1.8 million households.
- History shows the effects of previous natural disasters have been regional and short-lived.¹ However, given the extent of damage and the concentration and importance of energy and shipping facilities affected by the hurricanes, the adverse economic effects will likely be larger and felt more widely.

... but other economic indicators point to a much stronger state economy.

- Civilian employment gains (household survey) showed the state has added more than a quarter million new jobs between second quarter 2004 and second quarter 2005—a growth rate of 2.5 percent, or more than twice as fast as nonfarm payroll employment growth. Small business formations and self employment trends may explain some of the difference between the two surveys.
- Industrial activity picked up sharply in the second quarter with an annual growth rate of 2.7 percent, the state's best performance since the recession. State business leaders expect increased sales, profits, hiring and capital expenditures in the second half of 2005.² The Texas index of leading economic indicators (see Chart 2) also suggests that statewide nonfarm employment growth will accelerate in the second half of this year.



¹"The Impact of Hurricane Katrina," Prudential Equity Group, LLC, September 9, 2005.

²"Business Leaders Confidence Index (BLCI), Texas, Third Quarter 2005," Volume 4, Number 3. https://www.bci.com/texas/pdf/bci_tx_2005_q3.pdf

Energy remains a top concern for businesses across the state.

- The extent of damage on the area's oil, natural gas and refining infrastructure from hurricanes Katrina and Rita are a main concern. Since August 26th, 6.4 percent and 4.5 percent of crude oil and natural gas production in the Gulf of Mexico, respectively, had been shut-in.³ Pipelines are being assessed, and at least three large refineries along the Texas/Louisiana border were damaged, possibly disrupting gasoline distribution for many weeks.
- High energy prices are a major concern among Texas business leaders. More than one-third of business leaders said their businesses were being negatively affected by rising energy prices, while nearly two-thirds said they were unable to pass along the higher costs to their customers.⁴

Housing activity appears to be picking up around the state.

- Texas has not experienced a construction boom similar to the nation because of the state's modest economic recovery and prolonged weakness in the commercial sector. Nevertheless, housing activity remains healthy and continues to receive a lift from low mortgage rates, the growing use of non-traditional mortgage loans, and strengthening employment and income growth.
- However, the clean-up efforts and rebuilding of the Gulf Coast in the aftermath of the hurricanes will likely tighten the supply for critical construction materials and skilled laborers. This may raise construction costs and dampen home affordability.
- The lack of rapid housing price appreciation in many of the state's metropolitan areas has placed them at a lower risk for any future price correction. In a recent study, housing values in 19 of the 20 Texas metropolitan areas modeled were estimated to be undervalued anywhere from 3 percent to 19 percent.⁵

Texas insured institutions posted solid results for the first six months of 2005...

- Banks and thrifts headquartered in Texas posted a median return on assets (ROA) of 1.13 percent for the six months ending June 30, 2005, slightly above the same period for the past two years and higher than the national average of 1.06 percent. Improving credit quality has allowed the provision expense to remain at decade low levels.

- As 82 percent of insured institutions in Texas hold less than \$250 million in assets, earnings of these institutions are driven in large part by the net interest margin. Many community financial institutions have benefited from the recent increase in short-term interest rates.

...however, area institutions continue to face risk management challenges.

- TransRisk credit scores suggest that most of the southern states, including Texas, face significant credit quality challenges (see Map 1).⁶ Texas ranks 49th among states in terms of low credit scores, suggesting consumers and lenders within the state may face difficult challenges ahead. Moreover, Texas per capita bankruptcy rates remain at historically high levels, although these rates are down slightly from recent highs.
- According to Foreclosure.com there were 12,920 Texas foreclosed properties available for sale during the month of August 2005, dramatically higher than any other state in the nation. However, direct comparisons across states are difficult due to differences in laws. More recently, several government agencies and private groups have removed thousands of vacant homes from sale in an effort to provide temporary housing for Hurricane evacuees.
- Texas ranked last in the nation for home appreciation for the 12 months ending June 30, 2005, and the second lowest in the nation since 1980, according to the Office of Federal Housing Enterprise Oversight. Slower home appreciation has led to lower equity accumulation, which in turn has provided fewer alternatives for borrowers experiencing difficulties. Considering that Texas employment struggled coming out of the last recession, it is not surprising that the number of foreclosed homes on the market (a lagging indicator) would increase.

³"Hurricane Katrina/Hurricane Rita: Evacuation and Production Shut-in Statistics Report, as of Monday, September 26, 2005," by U.S. Minerals Management Service.

⁴Op Cit., "Texas Business Leader Confidence Index."

⁵"House Prices in America: Valuation Methodology & Findings," National City Bank, July 2005. <http://www.nationalcity.com/corporate/EconomicInsight/default.asp> then select Housing Valuation Analysis.

⁶TransRisk is a proprietary anonymous, aggregated credit risk score product of Trans Union, LLC. For more information on this topic please visit: <http://products.trendatatu.com/>.

Texas at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.4%	1.2%	1.2%	-0.5%
Manufacturing (9%)	-0.2%	0.0%	-1.5%	-1.2%	-5.1%
Other (non-manufacturing) Goods-Producing (7%)	1.4%	0.6%	-0.7%	-0.5%	-2.1%
Private Service-Producing (66%)	1.5%	1.8%	2.0%	1.8%	0.0%
Government (17%)	0.8%	1.1%	0.2%	0.6%	1.2%
Unemployment Rate (% of labor force)	5.4	5.8	6.1	6.1	6.7

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	7.6%	7.5%	7.3%	6.0%	3.9%
Single-Family Home Permits	10.4%	6.6%	11.3%	8.3%	9.3%
Multifamily Building Permits	-10.8%	62.1%	-7.6%	-12.9%	5.4%
Existing Home Sales	8.7%	7.0%	15.1%	14.1%	3.2%
Home Price Index	4.7%	4.0%	2.9%	3.3%	3.2%
Bankruptcy Filings per 1000 people (quarterly annualized level)	4.72	4.14	4.12	4.18	4.23

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	677	678	688	681	697
Total Assets (in millions)	224,280	218,696	209,080	215,455	200,187
New Institutions (# < 3 years)	25	26	19	24	20
Subchapter S Institutions	267	268	266	262	259

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.49	1.75	1.79	1.77	2.04
ALLL/Total Loans (median %)	1.22	1.24	1.26	1.23	1.27
ALLL/Noncurrent Loans (median multiple)	2.62	2.37	2.11	2.14	1.91
Net Loan Losses / Total Loans (median %)	0.07	0.05	0.08	0.14	0.18

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.57	9.45	9.38	9.42	9.07
Return on Assets (median %)	1.14	1.12	1.07	1.04	1.02
Pretax Return on Assets (median %)	1.45	1.39	1.32	1.33	1.28
Net Interest Margin (median %)	4.40	4.33	4.20	4.22	4.21
Yield on Earning Assets (median %)	5.85	5.62	5.34	5.44	5.59
Cost of Funding Earning Assets (median %)	1.41	1.25	1.07	1.10	1.33
Provisions to Avg. Assets (median %)	0.08	0.09	0.10	0.12	0.16
Noninterest Income to Avg. Assets (median %)	0.88	0.87	0.91	0.92	0.93
Overhead to Avg. Assets (median %)	3.38	3.33	3.38	3.41	3.36

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	56.5	55.3	56.2	56.7	53.8
Noncore Funding to Assets (median %)	17.5	17.1	16.8	16.8	16.3
Long-term Assets to Assets (median %, call filers)	12.3	12.8	14.6	13.3	13.6
Brokered Deposits (number of institutions)	89	81	80	78	76
Brokered Deposits to Assets (median % for those above)	3.7	3.6	2.8	3.3	2.8

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	83.4	83.6	84.4	84.7	85.8
Commercial Real Estate	156.5	153.6	151.1	152.7	144.8
Construction & Development	28.7	29.7	25.9	26.8	26.5
Multifamily Residential Real Estate	1.9	2.0	2.0	1.8	2.0
Nonresidential Real Estate	111.9	106.0	106.0	107.6	98.4
Residential Real Estate	99.3	96.5	102.8	99.5	102.8
Consumer	61.0	60.9	67.6	64.6	70.9
Agriculture	34.6	35.4	34.0	35.2	32.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Dallas-Fort Worth-Arlington, TX	165	93,060	< \$250 million	557 (82.3%)
Houston-Baytown-Sugar Land, TX	107	83,930	\$250 million to \$1 billion	89 (13.1%)
San Antonio, TX	60	27,962	\$1 billion to \$10 billion	28 (4.1%)
Austin-Round Rock, TX	61	13,841	> \$10 billion	3 (0.4%)
McAllen-Edinburg-Pharr, TX	17	6,350		